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Spy catchers worry as China gains consulate

By Bill Gerz
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The State Department has granted China permission to open a consulate in Los Angeles, overruling the objections of U.S. counterintelligence officials worried about Chinese espionage activities.

The decision — reached after a two-year battle within the administration — marks the first time a communist nation known to pursue what security officials call "hostile intelligence activities" has been allowed to establish a diplomatic presence in Southern California, according to an administration official.

Southern California is home to many of the nation's largest defense contractors and is considered a major espionage target of nations seeking to steal U.S. high technology.

Five of the nation's top 10 U.S. defense contractors operate in the Los Angeles area, including McDonnell Douglas Corp., Lockheed Corp. and Hughes Aircraft, according to the Pentagon.

Also, Southern California has one of the largest U.S. communities of Chinese Americans, who in the past have been a target of recruiting by Chinese spies, according to intelligence sources.

But opposition to the Chinese consulate in Los Angeles "evaporated" following the recent departures of CIA Director William Casey, who resigned for health reasons Feb. 2, and National Security Council Intelligence Director Kenneth de Graffenreid, who was an advocate of tough anti-spy measures, sources said.

"The State Department's China desk made a major push for the Chinese consulate, and opposition seemed to melt away," one official said. "At working level, FBI, Defense [Department] and CIA all continued to oppose it but, at the Cabinet level, opposition just evaporated."

Another intelligence source said Mr. Shultz prevailed in the dispute when Frank Carlucci, the new White House national security adviser, rejected the intelligence community concerns.

"The hand of the intelligence community has been so weakened in recent months that nobody could say 'no' to the secretary of state," the source said.

China currently operates consul-

ates in Chicago, Houston, New York and San Francisco, along with an embassy in Washington. The United States has consulates in Shanghai, Canton, Chengdu, Shenyang and plans a fifth consulate at Wuhan, in addition to an embassy in Peking.

An announcement of the new Chinese consulate is expected to be made by Secretary of State George Shultz during a weeklong trip to China. He is scheduled to leave Washington Thursday for meetings with Chinese leaders in Peking.

Chinese officials agreed four years ago to open a fifth consulate in Honolulu. But two years ago they sought permission to open a Los Angeles consulate instead, according to a Reagan administration official who spoke on the condition of anonymity.

Request for the Los Angeles consulate was turned down two years ago by the Interagency Committee on Real Estate Acquisitions, a group that must approve new consulates of countries whose spying is considered a major national security threat, the official said.

"They were afraid of Chinese human intelligence activities in a highly sensitive area," the official said.

Chinese espionage activities were highlighted by the 1985 spy case of Larry Wu-Tai Chin, a CIA translator who spied for China during a 30-year espionage career. He was convicted of espionage last year and later committed suicide.

James H. Geer, the FBI's intelligence director, said in a recent interview that the Chin case revealed that China, despite warming relations, "has in the past, and will continue to run, classic intelligence operations against the United States."

U.S. officials estimate that China has infiltrated spies into the United States among its diplomats, and trade officials, and among an estimated 10,000 Chinese students who study at U.S. universities.

Other intelligence sources said the CIA was tipped off to Chin and other PRC intelligence activities by the January 1985 defection of Yu Zhensan, a high-level official of the Chinese State Security Ministry's foreign affairs office. Mr. Yu provided U.S. security officials with details on Chinese spy networks and several PRC foreign intelligence services operating inside the United States, sources said.

A key administration official opposed to the new consulate was the Pentagon's technology transfer official, Stephen Bryen, who has been a major proponent of curbs on the loss of militarily significant technology to hostile powers, sources said.

State Department officials have argued that Chinese intelligence activities were less "hostile" than activities of Soviet bloc spy services, and that the FBI would not have any problems controlling any Chinese spies that are detected among the

diplomatic corps in Los Angeles.

However, intelligence sources said the State Department appeased Chinese government officials with the "gift" of the Los Angeles consulate to offset U.S. plans to sell military gunboats to Taiwan.

Security officials, according to the sources, were "infuriated" by the State Department decision because they believe Chinese spy activities pose a serious threat to U.S. high-technology defense programs under way in the Los Angeles area.

Officials say the Chinese, despite a developing anti-Soviet strategic entente with the United States, pose a serious national security threat and have undertaken "vigorous" espionage activities in the United States.

Intelligence sources said U.S. counterintelligence officials opposed the State Department decision because of the apparent instability of China's internal political and economic reforms.

Officials fear top Chinese reformist leaders are vulnerable to a possible coup by hard-line communists opposed to liberalization, sources said.